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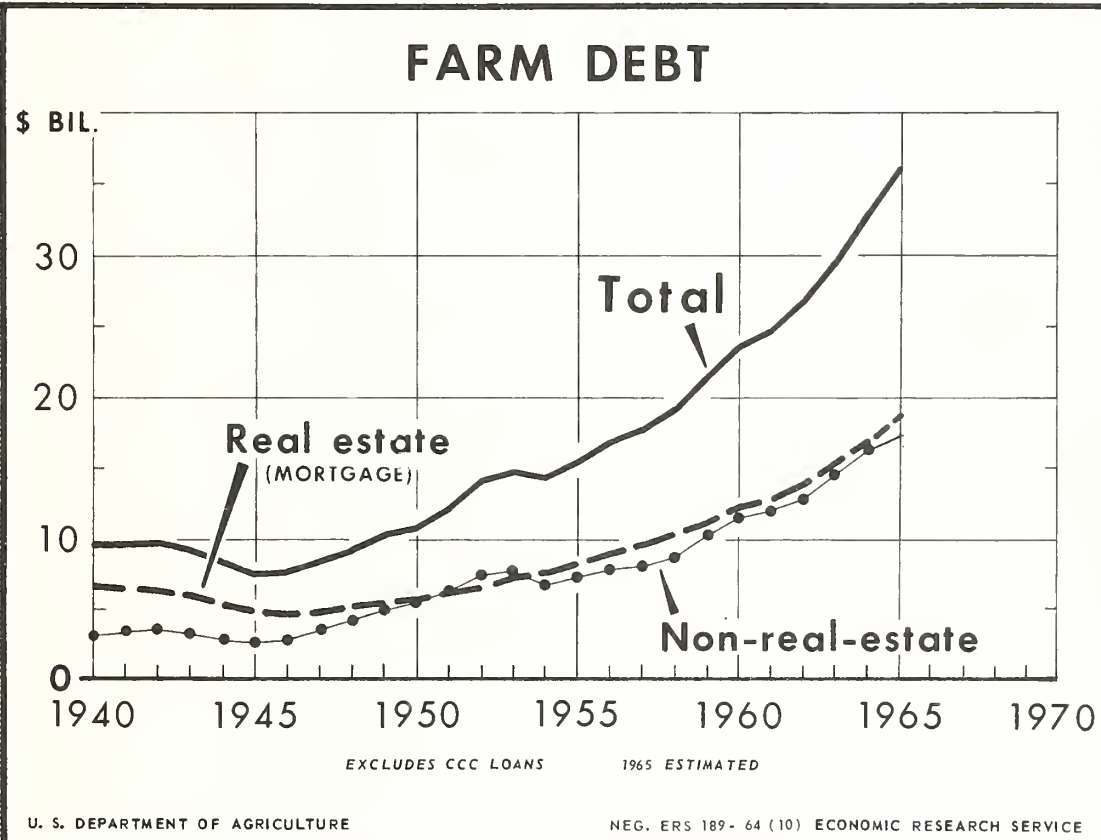
1965

AGRICULTURAL FINANCE OUTLOOK

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Farm debt has increased by about \$3 billion during each of the last 3 years. Reports from all parts of the country indicate that farm credit needs will again be large in 1965.

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In preparing this report, the Farm Production Economics Division, Economic Research Service, had the benefit of information received during late September from the district Farm Credit banks, the State offices of the Farmers Home Administration, the agricultural economists of the Federal Reserve System, the farm-mortgage departments of several life insurance companies in various parts of the United States, and major farm supply cooperatives.

1965 AGRICULTURAL FINANCE OUTLOOK

Approved by Outlook and Situation Board, November 6, 1964

THE OUTLOOK FOR 1965

The 1965 farm financial outlook is for little change in net farm income but a further rise in farm real estate values that will again increase the value of farm equities.

The value of farm assets is expected to approach \$231 billion on January 1, 1965, nearly \$8 billion higher than a year earlier. Virtually all of this increase will be due to the continued rise in farm real estate values. Although farm debts probably will be up about \$3.0 billion from the beginning of the year, farm equities are expected to show an increase of nearly \$5 billion for the year. This upward trend in farm equities may be expected to continue in 1965 as rising land values are more than offsetting the increase in farm debts.

Realized net farm income in 1965 probably will approach the 1964 level and be not much different from the estimate of around \$12.5 billion for each of the last 4 years. Cash receipts from marketings of livestock and livestock products likely will be higher in 1965 than this year. Government payments to farmers also are expected to rise in 1965 but receipts from marketings of crops probably will be lower than in 1964. The per capita disposable personal income of the farm population from all sources may rise slightly next year because of continued opportunities for nonfarm earnings and a further reduction in Federal income tax rates. Both farm numbers and the farm population are expected to decline further next year.

Farm debt (excluding CCC price support loans) has increased by about \$3 billion during each of the last 3 years. Reports from all parts of the country indicate that farm borrowings will again be large in 1965. Purchases of land to enlarge farms, and of facilities, equipment, and supplies to improve efficiency continue to increase the capital requirements of individual farmers; and farmers apparently are using credit to meet an increasing proportion of their capital needs. Farmers also are using more and more credit to improve their homes and levels of living and to educate their children.

For farmers in areas severely affected by drought this year, reporters indicate that debt carryovers will increase this fall and that more credit will be needed for supplemental feeding of livestock this winter and for crop production next spring. Their increased credit needs for these purposes may be offset in part by smaller purchases of capital items. Moreover, many cattle feeders may require less credit than last year because of the lower prices at which feeders can be obtained.

In last year's Outlook Report, attention was called to the large amount of funds available for making farm mortgage loans and to the strong competition that had developed among lenders. Some lenders expressed the opinion that

mortgage loans were being made on too liberal a basis. Loan funds have remained large, and the strong competition among lenders has continued to the present time. In the reports received from lenders this fall, increased concern was expressed about the amounts being loaned per acre. Nevertheless, mortgage loan delinquencies and foreclosures remain at near-record low levels and payments on mortgage loans continue at a high rate, even in areas that have been hurt most by the lower prices of livestock earlier in 1964 and by drought.

The larger amounts per acre being loaned and the continuous increase in mortgage debt have raised questions about the mortgage debt situation for which no completely satisfying answers have yet been found, despite the excellent collection record on mortgage loans. The high repayment rate may result in part from the strong market for farmland, which has permitted borrowers with burdensome debts to repay their loans by selling their farms. Lenders report that some farmers have done this.

A second factor contributing to the excellent repayment record on mortgage loans may be the large volume of mortgage refinancing that is done. In such refinancing, borrowers frequently use the increased equities that have accrued from rising land values as a basis for increasing their debts. They pay off a loan by obtaining a larger loan. Whether a sound debt situation results from this practice depends on the reason for increasing debt and the use made of the additional loan proceeds.

But the great majority of payments are believed to be made from the incomes of borrowers; and this raises the question how, with little change for several years in aggregate net farm income, farmers can carry an ever-increasing mortgage debt. The explanation lies partly in the increasing amounts of nonfarm income that farmers receive. Probably far more important are the gains farmers can make by enlarging their farms and acquiring labor-saving facilities and equipment. Most of the mortgage loans obtained by farmers apparently have been used for these purposes or to refinance debts incurred for such purposes. It seems probable that most of the farmers who borrowed the large amounts per acre have been able, through added capital investment, to increase their net incomes substantially, even though aggregate net farm income has not increased.

Until more is known about the sources of funds used by farmers in repaying their mortgage loans and about the extent to which mortgage loans help farmers to increase their incomes, the mortgage debt situation will remain difficult to appraise. In the meantime, the concern mortgage lenders are expressing about the higher loan limits indicates that they are alert to possible dangers in this situation.

FINANCIAL DEVELOPMENTS IN 1964

Preliminary estimates indicate that the value of farm assets has risen again in 1964 (table 1). By year-end the value of these assets is expected to approach \$231 billion, up about \$8 billion from the beginning of the year. Farm debt will have increased by about \$3.0 billion but the value of farm equities probably will be up by nearly \$5 billion.

Table 1.--Balance Sheet of Agriculture, Jan. 1, 1964, and estimate for Jan. 1, 1965

Item	Jan. 1, 1964 <u>1/</u>	Estimate for Jan. 1, 1965	Percentage change
ASSETS	Billion dollars	Billion dollars	Percent
Physical assets:			
Real estate-----	150.8	158.5	5.1
Non-real-estate-----	53.7	53.0	-1.3
Financial assets-----	18.5	19.0	2.7
Total-----	223.0	230.5	3.4
CLAIMS			
Liabilities:			
Real estate debt-----	16.8	18.7	11.3
Non-real-estate debt to--			
Commodity Credit Corpora-			
tion-----	1.9	1.5	-21.1
Other reporting and non-			
reporting creditors-----	16.2	17.6	8.6
Total-----	34.9	37.8	8.3
Equities-----	188.1	192.7	2.4

1/ Revised.

The gains during 1964 in farm asset and equity values will result almost entirely from the continued increase in the value of farm real estate. The aggregate value of other farm assets probably will change little from a year earlier. Motor vehicles and farm machinery have continued to rise in value during 1964 and small increases in farmer-owned time deposits and investments in cooperative associations also are indicated. But offsetting declines are expected in the value of the livestock and crop inventories. The value of the livestock inventory is expected to be lower than at the beginning of the year because of reduced numbers of hogs and lower cattle prices. Less corn and hay on farms, and a lower price for wheat, are the main reasons for the expected decline in the value of the crop inventory.

Farm debt has continued to rise in 1964. Of the \$3.0 billion increase expected for the year, nearly \$2.0 billion will be in farm real estate debt. Data for some of the mortgage lenders during the first half of the year show increases over the first half of 1963 in the volume of new mortgage loans

made and indicate a slight increase in the proportion of the loans made for refinancing indebtedness. At the same time, midyear data for the principal institutions that extend short- and intermediate-term credit to farmers indicate that the non-real-estate farm debt is increasing at a lower rate than last year. The volume of new loans by the production credit associations has been only slightly higher this year than last.

These developments indicate some slackening this year in the rate at which farm demands for short- and intermediate-term credit have been increasing but an acceleration of the rate at which demands for long-term mortgage credit have been increasing. The cattle situation appears to be partly responsible for these trends. Heavy marketings of cattle throughout the year and the lower price of feeder cattle this fall have moderated cattle feeders' needs for short-term credit. Beyond this, though, reports indicate that in many areas throughout the country farmers and ranchers are funding increasing amounts of short- and intermediate-term debt into longer term obligations secured by real estate mortgages. Apparently substantial numbers of farmers have built up short- and intermediate-term debts to a level involving burdensome payments. Those who have sufficient equity in their land can reduce the amounts that must be repaid annually by refinancing them with long-term mortgages; with such mortgages, principal repayments can be spread over a long period. In addition, interest rates are usually lower on these mortgages.

Reports from respondents indicate that the cash and debt situations of many farmers are less favorable this fall than a year ago. Drought and reduced cattle prices are cited as the major causes. During the late summer and fall, wide reaches of the country--extending from the northeast States to the Rocky Mountains--suffered from drought which was severe in many areas. For some of the areas it was the third consecutive year of drought. As of October 15, about 1,050 counties had been made eligible under the drought assistance program for haying and grazing privileges on lands retired or diverted from crop production. By October 7, 1,024 counties had been designated, chiefly because of drought, as eligible for emergency loans of the Farmers Home Administration.

The effects of drought were to lower yields of corn, grain sorghum, soybeans, hay, pastures, and other crops in the affected areas. Lightweight cattle and severe culling of herds are reported for some southwestern ranches, and increased purchases of feed for dairy cattle will be required this winter in the Northeast. Respondents indicate that the financial reserves of many farmers and ranchers in these areas are being depleted and anticipate that the debt carryovers and credit needs of these farmers will increase this winter.

A brighter outlook is reported for many parts of the Pacific, Mountain, Northern Plains, and Southeastern States, where growing conditions were much better. However, some counties in these regions also are receiving drought relief.

A great majority of respondents reported that farmers continue to enlarge their farms and improve their production facilities, and that farm living levels have not generally been lowered despite the drought and reduced livestock prices. More and more farmers and their wives are seeking and finding off-farm jobs to supplement their farm incomes.

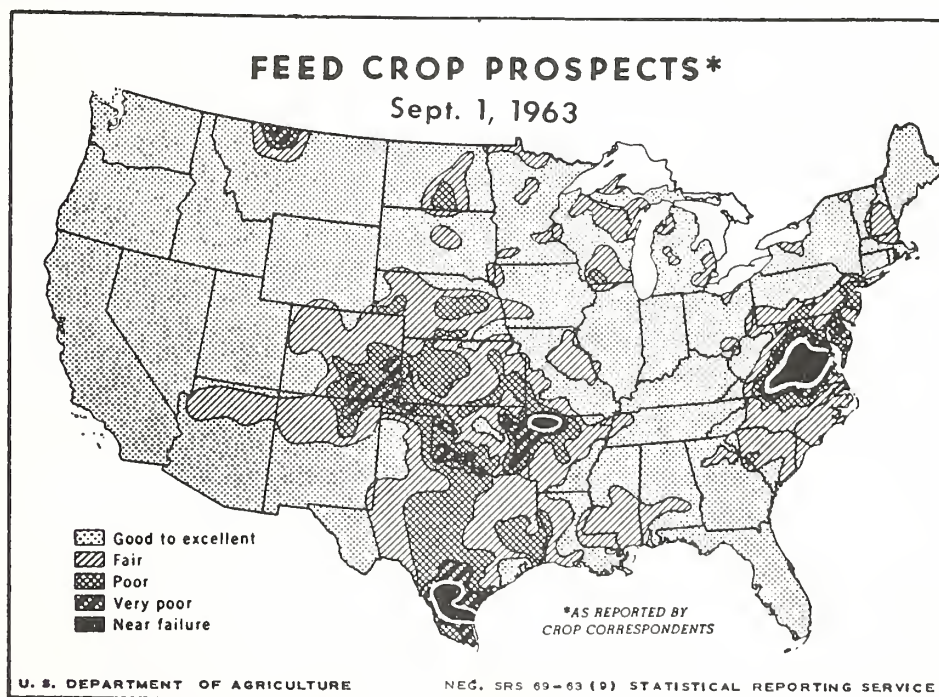
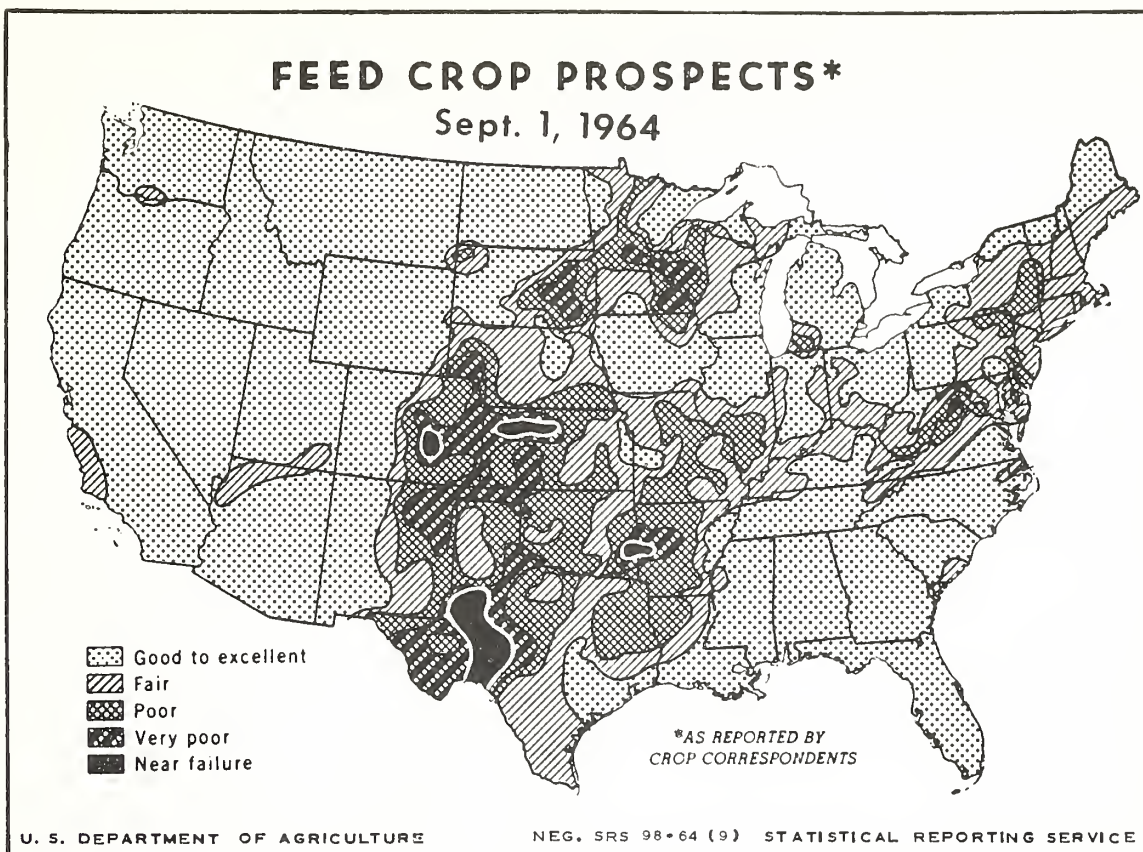


Figure 1

Farm Real Estate

Farm real estate average market prices per acre on July 1, 1964, were 6 percent above the record-high level of a year earlier (fig. 2). By mid-1964 the average value of all farm real estate had increased more than a third since 1957-59 and was double the 1950 level. During the same time that per acre values moved higher, the number of farm operating units declined at a faster rate than did total land in farms. The average farm in 1964 was 15 percent larger in area than it was in 1959 and well over 50 percent bigger than in 1950.

These developments, acting together, have pushed the average value per farm operating unit from \$14,000 in 1950 to close to \$50,000 in 1964. Per farm average values were over \$100,000 in 1964 in 6 States--Arizona (\$404,000), Nevada (\$200,700), California (\$199,800), Florida (\$123,050), Wyoming (\$108,250), and New Mexico (\$107,600). In 24 of the 48 contiguous States, values per farm exceeded the national average of \$48,000 in 1964; 5 years earlier, farms in only 11 States averaged as high as \$48,000.

Average value per farm is a reflection of the real estate capital used in an average operating unit. It does not necessarily indicate the amount of land that the average farmer owns, or the capital needed to become established in farming. Recent substantial annual increases in average value per farm do, however, partly explain the growth of farm real estate debt and the upsurge in

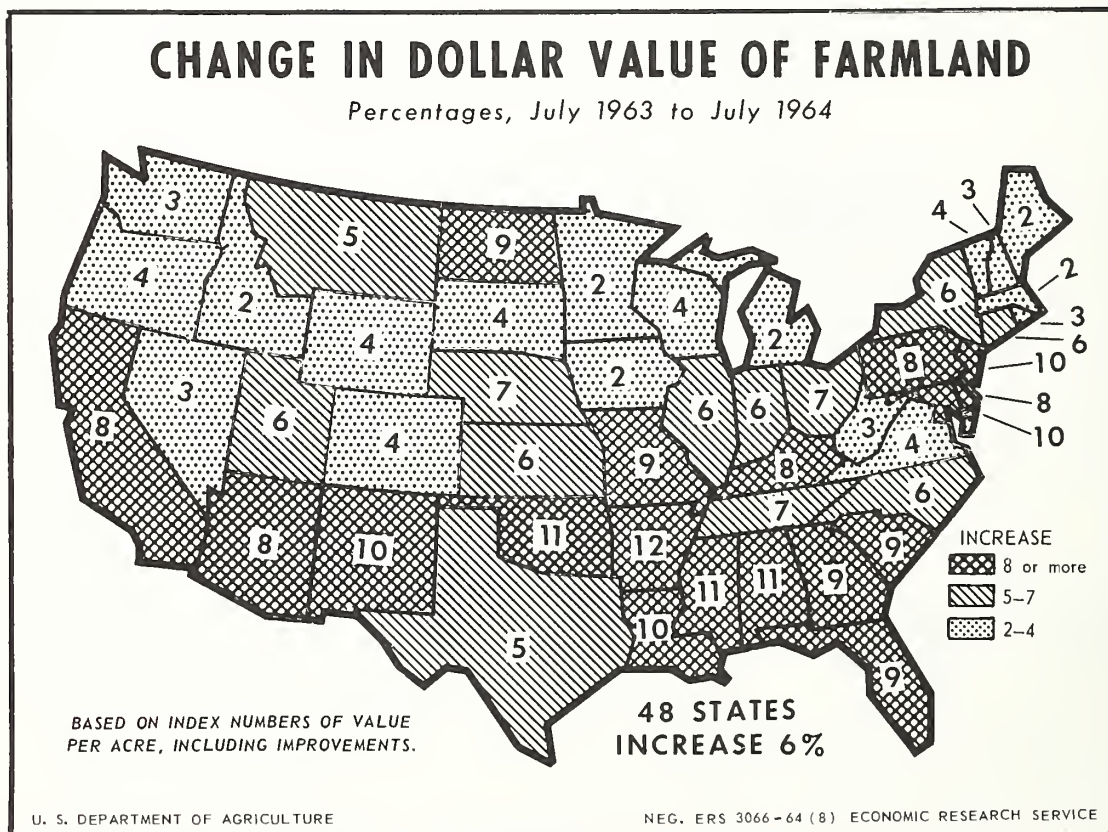


Figure 2

seller financing. They also partly explain a decline in the rate that full tenants become owners, and an increase in the proportion of farm operating units that consist of owned plus rented land.

Accompanying the rise in value per farm has been a significant shift in methods of financing farmland purchases. Almost every year since 1946, when estimates first were made, the proportion of farm sales by installment land contracts has increased. By 1963, an estimated 30 percent of all sales were by this method of seller financing. In 1964, however, this upward trend was interrupted when only 29 percent of farmland sales were seller-financed by land contract.

This leveling off in the use of land contracts probably was triggered by the recent sharp increase in loanable funds in the hands of commercial lenders. Of the several ways in which commercial lenders compete for new business most emphasis in the last 2 or 3 years has been given to relaxing loan limits. Scattered evidence indicates that some purchases have been financed by conventional mortgages with downpayments as low as 25 or 30 percent. Previously these would probably have been seller financed by land contract. In a few instances where buyers were reported making low downpayments, they may have pledged other properties they owned as additional security.

The aggregate demand for land from all segments of the economy out-paced offerings in 1964 as in previous recent years. Despite strong demand at record high market prices in nearly all States, sales activity was slow. Less than 91,000 parcels of rural property voluntarily changed hands from March 1, 1963, to March 1, 1964. Only in 1 other year (1962-63) in the past several decades were fewer transfers reported. Of all farm real estate purchases during 1963-64, about half were made by farm owner-operators who enlarged existing farms.

Next year, 1965, may be similar to 1964 in so far as the farm real estate market is concerned. Reports from nearly all sections of the country indicate that the major demand factors that have shaped the rise in farm real estate prices probably will continue into 1965. Hope of higher prices, not only next year but also in the years following, will tend to restrict offerings. The outlook, then, is for a continuing rise in values per acre about the same as that occurring in 1964. If the average farm size increases in 1965, as is expected, the average value per farm could exceed \$53,000 at the close of 1965.

Farm Income and Expenditures

1964 Income Situation. Through September this year, cash receipts from farm marketings were estimated at \$24.5 billion, about \$100 million less than in January-September 1963. However, Government payments to farmers were about \$500 million more, resulting in total cash receipts above last year.

Prices received by farmers in the first 9 months of this year averaged about 2 1/2 percent lower than a year earlier, but the volume of marketings increased. Livestock and livestock product marketings were estimated to be up 4 percent, and crop marketings up almost 2 percent. Prices for livestock products through September averaged about 5 percent less, but crop prices showed little change from a year earlier.

Receipts from marketings of livestock and livestock products during January-September this year totaled about \$14.5 billion, down less than \$100 million from the same period of 1963. Cattle prices were off about 10 percent, but the volume of marketings was larger. Fed cattle prices have shown strength since midyear which is likely to hold during the remainder of the year. Hog prices through September were down slightly from 1963 while marketings were up slightly. However, prices are expected to strengthen in coming months relative to a year earlier.

Receipts from dairy marketings increased about \$100 million in the first 9 months of this year compared with last year. The volume of milk sold was up about 2 percent and prices were about 1 percent higher. Broiler marketings were up about 5 percent, but prices were down. Prices received for eggs have been about the same as in 1963 despite a 3-percent increase in the volume of marketings.

Receipts from marketings of crops in the first 9 months of 1964 were estimated at around \$10 billion, down slightly from January-September 1963. Receipts from marketings of corn were slightly higher due to a large 1963 crop and slightly higher prices. Cash receipts from all feed crops were about the same as a year earlier; supplemental payments under the Feed Grain Program, however, will boost the total. Receipts from wheat were down about \$300 million due mainly to the sharply lower loan rate for the larger 1964 crop; however, much of the drop will be made up by payments under the 1964 Wheat Program.

In the 1963 Wheat Program, the national average loan rate was \$1.82 per bushel. Complying farmers also received a price support payment of 18 cents per bushel of normal yield on planted acreage, making a total return of about \$2.00 per bushel. In 1964, the loan rate was \$1.30, but farmers also received marketing certificates for 90 percent of their normal yield, half valued at 70 cents and half valued at 25 cents per bushel. The average return was approximately \$1.73.

Receipts from farm marketings of cotton through September were estimated at almost \$200 million less than last year due mainly to a lag in ginnings and also a drop in price for the 1964 crop. The basic price support on the 1964 crop is 30 cents per pound compared with 32 1/2 cents per pound for the 1963 crop. Those cotton growers whose acreage was held to no more than their domestic allotment will receive supplementary income payments of 3 1/2 cents per pound.

Tobacco receipts through September were estimated at close to 10 percent higher than a year earlier due mainly to a larger volume of marketings. Receipts from oil crops were close to a year earlier. Soybean prices averaged about the same. Receipts from potatoes were up sharply due to an almost 50 percent increase in average prices. Orange prices were also sharply higher--about 20 percent--resulting in substantially higher receipts.

For the full year 1964, Government payments to farmers are expected to be around \$2.2 billion compared with \$1.7 billion in 1963. Payments under the Wheat and Feed Grain Programs are running well above last year's rate.

Production expenses through the first 3 quarters of this year were running at an annual rate of about \$29.5 billion, up slightly from the 1963 rate. In the aggregate, prices paid for production items, interest, taxes, and wage rates showed virtually no change. Wage rates were up 2 1/2 percent, but the number of hired workers was down about 10 percent. Farm real estate tax rates and interest payments were well above a year earlier. Prices paid for production items were about 1 percent less than a year earlier due mainly to lower feed and livestock prices.

Realized gross farm income in the first 3 quarters of 1964 was running at a slightly higher rate than in 1963. The rise in production expenses about offset the rise in gross income. Realized net farm income for the first 3 quarters of 1964 was running at an annual rate of \$12.4 billion as compared with the \$12.5 billion estimated for all of 1963.

Net income realized per farm in 1964 probably will be above the \$3,504 average for 1963. Per capita personal income of the farm population from both farm and nonfarm sources will probably average higher than in 1963.

Outlook for 1965 Income. Realized net farm income in 1965 probably will approach the 1964 level and be not much different from the estimate of around \$12.5 billion for each of the last 4 years. Realized gross farm income likely will be about the same next year as the record high \$41.9 billion now in sight for this year. Farm production expenses may show a smaller-than-average increase in 1965.

This outlook for 1965 points to average net income realized per farm being maintained at record high levels. Also, the disposable personal income per capita of the farm population from all sources may rise slightly next year because of continued opportunities for nonfarm earnings, a further reduction in Federal income tax rates, and continued declines in farm numbers and the farm population.

Cash receipts from farm marketings of livestock and livestock products likely will be higher in 1965 than this year. Government payments to farmers are also expected to rise in 1965, but not as much as the substantial rise from 1963 to 1964. Receipts from farm marketings of crops next year likely will be lower than in 1964. Current operating expenses such as feed and livestock purchased are likely to be up slightly in 1965, but the hired labor bill is apt to be down again. Overhead costs such as interest and farm real estate taxes are expected to continue to increase in 1965.

FURTHER GROWTH IN FARM DEBT

Farm debt is increasing again this year. As shown in the table on page 12, the rise will probably be slightly more in dollar amount and only slightly less percentage wise than the large increase in 1963. For 3 years, the growth in debt has approximated \$3 billion or 10 percent annually.

For the first time since 1961, real estate-secured debt is rising considerably faster than non-real-estate debt. To a large extent this reflects lower prices for feeder cattle and less costly feeding operations, and smaller incomes of cattle producers and feeders. But it may also reflect a desire of borrowers to place more of their financing on a longer term basis and a desire

Changes in Farm Debt 1/
1960-1964

Year	Debt outstanding Jan. 1		Increases in debt during year					
	Total	Real : estate	Non- real- estate	Total	Real : estate	Non- real- estate	Total	Real : estate
	<u>Billion dollars</u>			<u>Billion dollars</u>			<u>Percent</u>	
1960-----	23.6	12.1	11.5	1.2	0.7	0.5	5.0	6.1
1961-----	24.8	12.8	12.0	2.0	1.1	.9	8.2	8.4
1962-----	26.8	13.9	12.9	2.9	1.3	1.6	10.7	9.1
1963-----	29.7	15.2	14.5	3.3	1.6	1.7	11.2	10.8
1964-----	33.0	16.8	16.2	3.4	2.0	1.4	10.2	11.5
1965 <u>3/</u> -----	36.4	18.8	17.6					

1/ Excludes Commodity Credit Corporation loans.

2/ Computed from unrounded data.

3/ Preliminary estimate.

of lenders to have greater security behind their loans. In any event, it is evidence of a change in the lending-borrowing situation; until additional data become available, its importance cannot be appraised adequately.

The dollar volume of farm mortgages recorded in the first half of 1964 was 15 percent greater than in the first half of 1963. This was not quite as large a rate of increase as the 19-percent rise in the first half of 1963 compared with the previous year. Farm-mortgage recordings have increased substantially each January-June period since 1960.

All of the regions in the Central and Western parts of the country showed large increases in the volume of mortgage recordings except the Pacific States (fig. 3). In the Delta and Southeast, increases were small. The most marked increases in mortgage lending seemed to be in those areas where cattle feeding or raising were an important source of income. In these areas a larger proportion than usual of total credit advances apparently was being made on farm real estate security (figs. 3 and 4).

The insurance companies and the Federal land banks had large increases in volume of farm-mortgage recordings in the first half of 1964--28 percent greater than in the first half of the previous year. Commercial bank lending rose 12 percent compared with a 24-percent increase in 1962-63. Lending by individuals increased only 5 percent in the first half of 1964.

Despite some shift in types of credit, the underlying forces leading to the use of increasing amounts of credit--both in the aggregate and per farm--remain strong. Farmland prices almost without exception are rising throughout the Nation reflecting to a major extent the desire and need of operators to increase farm sizes. Purchases of farm machinery and automobiles have been rising further. There has been increased use of many production goods, and a continued upgrading of living levels of farm families. Many of the reports from respondents noted increased borrowing by farmers for financing education of their children.

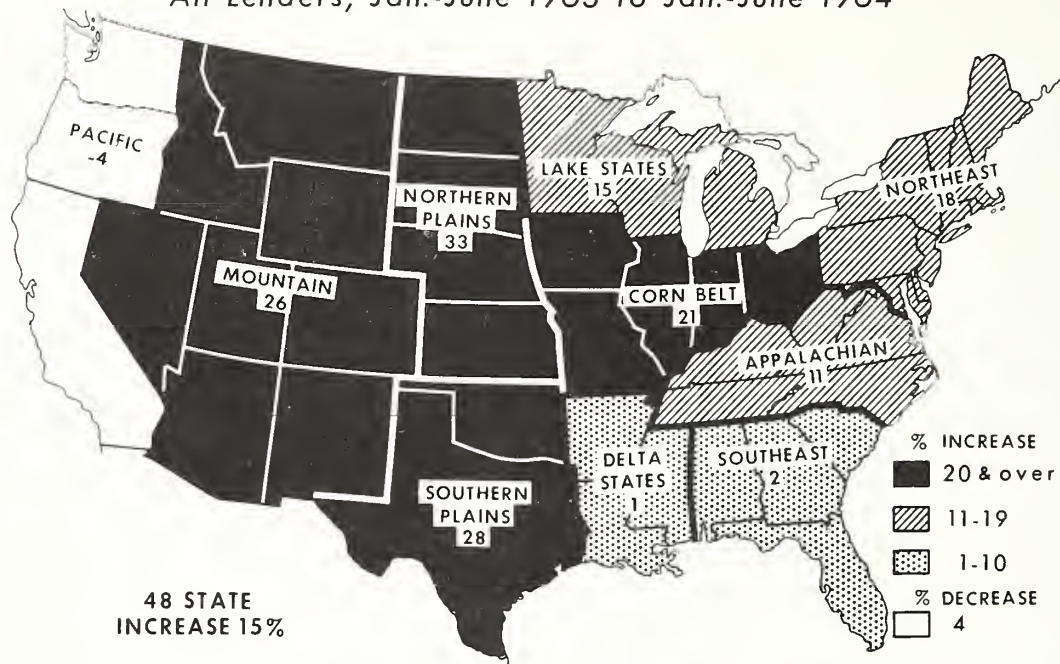
Only in investments associated with the production and feeding of cattle --either because of lower prices and smaller numbers of cattle on feed, or because of smaller outlays for feeding systems and similar investments--did there seem to be a decline in credit demand. In the livestock areas, lenders were reported as generally continuing to finance their established customers. Farmers Home Administration lending activity increased little.

The condition of farm loans appeared to have remained strong with few reports of delinquencies, and practically no foreclosures. For example, the proportion of Federal land bank loans that were delinquent on June 30, 1964, was slightly less than a year earlier for most of the regions. Nationally, such delinquencies were the lowest in more than a decade.

There is no evidence of a slowdown in repayments on farm-mortgage loans. Repayments on non-real-estate farm loans apparently were not as strong this year in some of the cattle areas as they were last year or the year before, and renewals of loans increased. One report stated "quite a bit of the reduction made on short-term. . .loans has resulted from increased long-term refinancing of borrowers."

CHANGE IN FARM MORTGAGE RECORDINGS

All Lenders, Jan.-June 1963 to Jan.-June 1964



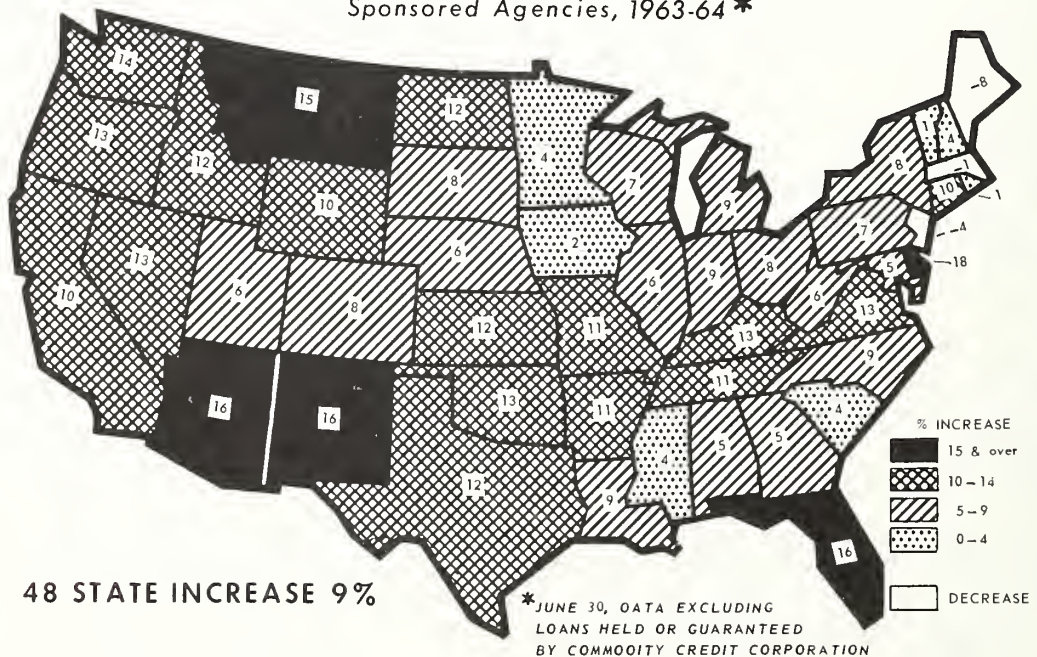
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Figure 3

CHANGE IN NON-REAL-ESTATE FARM LOANS

Held by Insured Commercial Banks and Federally Sponsored Agencies, 1963-64*



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 3258-64 (10) ECONOMIC RESEARCH SERVICE

Figure 4

In the cattle feeding and producing areas, and in limited areas elsewhere, there were reports that borrowers with losses or low profits were finding it necessary to increase their borrowings and often were borrowing against their real estate, or were adding to their existing real estate debt by refinancing. Probably this method of financing appealed to both lenders and borrowers--to lenders because they felt added security was desirable; to borrowers because the repayments could be made over a period of years. This method of adjusting to income deficiencies has no inherent difficulties so long as it does not cover up or distort a need for basic changes in operations.

There were some reports of substantial numbers of farmers "living off of the depreciation of their equipment or buildings." However, the statistics indicate this was not widespread for farm machinery. Sales of farm machinery in 1964 were higher than in 1963, despite weather and income problems in some areas. Sales in 1963 had been quite strong, up 10 percent from the previous year. Although some farmers doubtless are not replacing their machinery as rapidly as it wears out, many are improving and upgrading their machinery.

With large amounts of loan funds available, and with good repayments on existing loans, lenders continued to be eagerly seeking farm loans in 1964. Interest rates on short-term loans have increased a little, while farm-mortgage rates have been stable.

Lenders were reported as further easing their lending terms in 1964. This has added significance because lending terms apparently were eased appreciably in 1963. Among the kinds of easing reported were higher appraisals, larger loans per acre, and smaller or no amortization requirements on mortgage loans in the early years of the loan.

Reports from a number of areas indicated that large to possibly excessive amounts of credit were being provided by some dealers and other sellers of farm capital goods and current supplies. There were frequent indications that the ready availability of credit was a factor in inducing some farmers to make purchases without adequate analysis of the probable effect on their incomes, or without consideration of the cost of the credit or the repayment terms. Such credit was often used for expensive machinery, automobiles, household equipment, and investments in specialized livestock operations. One reporter stated ". . .the most seriously affected (livestock producers) have been those who endeavored to expand materially in the last 2 or 3 years, and who borrowed heavily to go into such projects as automated cattle feedlots and confined hog setups."

Reviewing the forces leading to increased debt, one reporter summarized in these terms: ". . .I think the noteworthy thing about farm debt. . .is its continued increase based apparently on farmers' need for and justifiable use of credit for many purposes. This in turn apparently is being well supported by their ability to produce relatively high levels of gross and net incomes. The trend in net income per farm, of course, has been upward for some time. . .and there seems in my mind little reason for a reversal of this trend. In this sense, then, I foresee a continued demand for credit, both in operating and investment-type credit, a continued high level of spending and investment by commercial farmers to better their productivity and competitiveness, and a continued growth in the general debt of farmers."

Emergency Loans of the Farmers Home Administration

In early October about one-third of all the counties in the United States had been designated as eligible for emergency loans from the Farmers Home Administration (fig. 5). Farmers in these areas had suffered from such natural disasters as drought or floods and were stated to have a need for credit that could not be met by commercial lenders. Most of the designations were made because of drought. The number of counties eligible for such aid, 1,024, was nearly double the number of designated emergency counties in October 1963 (570).

Open-Account Credit From Cooperatives

Farmers are expected to spend only slightly more in 1964 than the estimated \$15.4 billion they spent in 1963 for feed, seed, fertilizer, lime, repairs and operation of capital items, and other farm production items. These are the goods and services that farmers typically use for day-to-day farm operations. Many farmers obtain these items on open-account credit.

To provide an insight into farmers' use of this type of credit, 11 major farm supply cooperative associations supplied detailed information about their gross volume of sales by product categories, the percentage of sales on open-account credit, and the aging of these accounts. These reporting associations are so located that most sections of the country except the Mountain States are represented. In the aggregate they reported gross sales in 1963 of \$1.0 billion; for 1964 they anticipate sales of about \$1.1 billion; and for 1965 they expect a further increase to \$1.2 billion. By commodities, their sales in 1964 were: Feed, 34 percent; petroleum products, 25 percent; fertilizer, 20 percent; tires, batteries, and accessories, 6 percent; seed, 3 percent; chemicals other than fertilizer, 3 percent; and all other items, 9 percent.

Accompanying the rise in sales has been a slight rise in the use of open-account credit. Respondents to the survey indicated that 76 percent of the noninstallment sales by retail outlets served by these cooperative associations were open-account credit transactions in 1964; the same associations reported 75 percent for 1963. On the average, they expect a further rise of open-account sales to about 77 percent in 1965. Among the reasons cited for the growth in this type of credit was this typical comment: "Farmers and ranchers are not accumulating capital from operations rapidly enough to keep pace with increasing costs of production."

All the reporting associations extended open-account credit ranging from 40 to 96 percent of total retail sales not including installment credit sales. Nearly half of the associations reported that open-account credit sales accounted for 80 percent or more of their gross retail volume. Variations in the amount of credit extended by the individual associations is a reflection of differences in credit policies as well as differences in the needs of their customers.

The reporting cooperatives were asked to indicate the proportions of their retail accounts that were current and the ages of their delinquent accounts. On the average, 49 percent were classed as current, 20 percent were 1 to 30 days past due, and 31 percent were 31 days or more past due.

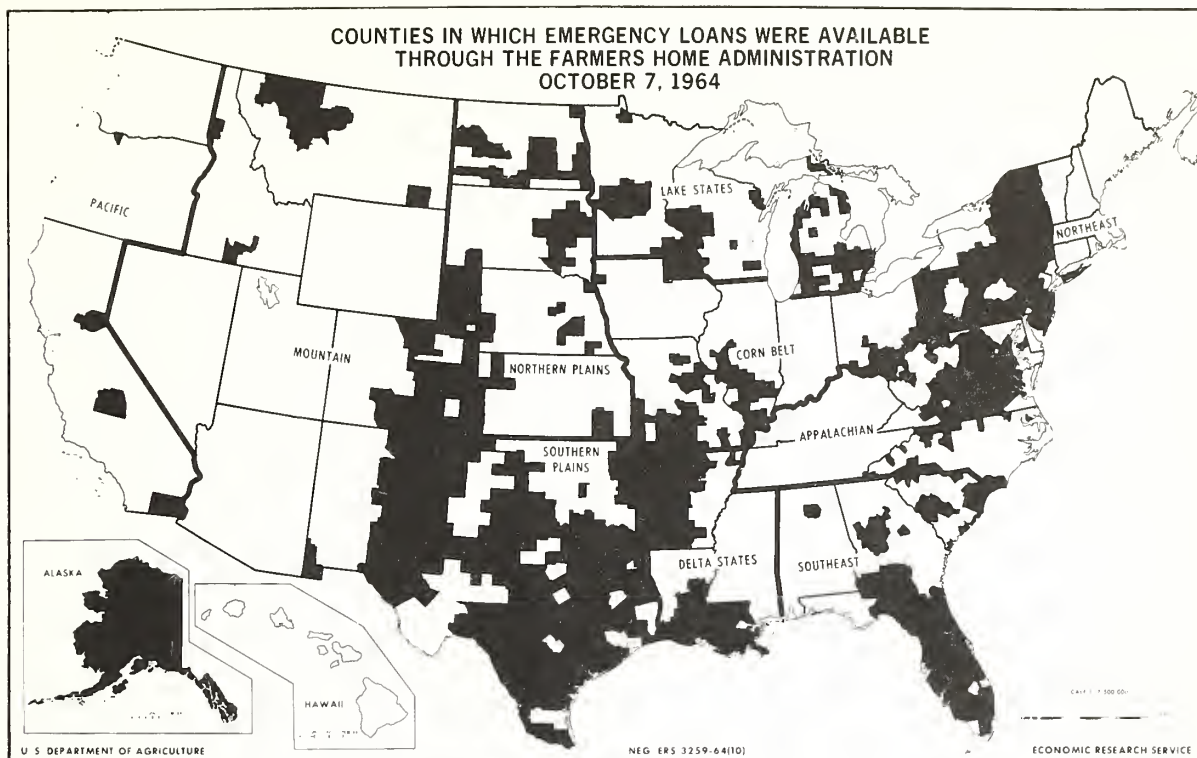


Figure 5

In the aggregate, little change was evident in the aging of past due accounts. However, for some individual associations this was not the case. Where significant increases in past due accounts were reported, the respondents indicated that initial extensions of credit would be more thoroughly screened and more emphasis would be placed on collecting accounts now overdue. Nearly three-fourths of the reporting cooperatives said they planned no change in credit policies in 1965.

REGIONAL SITUATION AND OUTLOOK

N O R T H E A S T

Regional Highlights

	1963 (Million dollars)	1964 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, Jan.-Aug.			
Total-----	1,963	2,028	3.3
Crops*-----	595	631	6.1
Livestock and products-----	1,368	1,397	2.1
Market value of farm real estate, July 1-----	7,873	8,257	4.9
Farm real estate debt, Jan. 1-----	990	1,057	6.8
Farm-mortgage recordings, Jan.-June-----	116	137	18.1
Non-real-estate loans held by reporting lenders, July 1-----	565	596	5.5

*Because the 1964 wheat program differed materially from the program for the 1963 crop, the data on cash receipts from marketings of crops do not reflect farmers' incomes from wheat as fully in 1964 as in 1963. See section on farm income and expenditures.



Returns to farmers in the Northeast from marketings during the first 8 months of 1964 were higher than during the same period last year. Crop returns increased relatively more than did those from livestock. The gains occurred despite widespread drought, affecting some farmers for the third year in a row.

Milk prices realized by dairy farmers have been moderately higher than in 1963, and production was similar to last year. Potato farmers appear to be in a somewhat more favorable financial situation--particularly in Aroostook County, Maine, for the first time in several years--as a result of much better prices in 1964. Some broiler growers are reported to be in an increasingly difficult cost/return position since feed suppliers are requiring more improvements and innovations in farm plants without increasing the growers' share in the returns. Narrow profit margins continue to be characteristic of the broiler industry.

Outside the drought areas, many farmers experienced a good year for production and marketing. These farmers are expected to be in improved financial condition at year end. Many will expand and improve their farm plants by the addition of more land as it becomes available and by the purchase of better machinery and equipment.

Severe drought hit some areas of the region in 1964. As of October 15, eligible farmers in 89 counties (or 36 percent of the counties of the Northeast) were being permitted to make purchases of Commodity Credit Corporation feed grain stocks in the USDA Livestock Feed Program. Eligible farmers in 67 counties (or 27 percent of the region) were receiving benefits under the Grazing and Haying Program which permitted livestock grazing and hay harvesting on land retired or diverted from crop production. Also, many counties were made eligible for emergency loans of the Farmers Home Administration.

Because of the drought, many farmers have had to buy supplemental feed and some farmers have had to cut the size of their herds. The drought may be expected to result this winter in unusually large purchases of supplemental feed. These purchases will probably increase the needs of farmers for credit.

It is apparent that more credit will be needed during the remainder of 1964 and into 1965. There seems to be no shortage of loan funds to provide needed credit if lenders feel that the loans are justified. Also, lenders do not seem reluctant to renew or refinance loans for their farmer customers so long as these farmers seem to have repayment potential. Those having equities are increasingly using these equities to obtain longer term loans to reduce their annual payments. Values of farmland in the region, as of July 1, had increased 5 percent over last year, nearly double the rate of increase from July 1, 1962, to July 1, 1963. January-June farm-mortgage recordings increased 18 percent from 1963 to 1964, compared with 2 percent from 1962 to 1963 and a previous 5-year high of 10.5 percent (from 1960 to 1961). Non-real-estate farm loans, as of July 1, had increased at a somewhat slower rate than last year. The delinquency and foreclosure situation in most areas is reported to be generally not greatly different this year, in part because of the relative ease of renewal and refinancing. Both the demand and supply of credit may be expected to continue strong into next year at firm to slightly higher interest rates.

L A K E S T A T E S

Regional Highlights

	1963 (Million dollars)	1964 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, Jan.-Aug.			
Total-----	2,131	2,198	3.1
Crops*-----	515	551	7.0
Livestock and products-----	1,616	1,647	1.9
Market value of farm real estate, July 1-----	11,005	11,141	1.2
Farm real estate debt, Jan. 1-----	1,639	1,794	9.5
Farm-mortgage recordings, Jan.-June-----	155	179	15.5
Non-real-estate loans held by reporting lenders, July 1-----	892	945	5.9

See footnote () page 18.



Farmers in the Lake States, on the whole, had larger receipts from marketings during the first 8 months of 1964 than in the corresponding months of 1963. Receipts were up both for crops and for livestock and livestock products. But, as in the Northeast, many of these farmers were affected severely by drought during the summer and fall and will feel its effects in the winter months when their purchases of feed will be unusually large.

Dairy farmers in this region are enjoying slightly higher prices for their milk this year than last, and their production is up somewhat. During the latter half of the year, the situation of livestock feeders has been improved by the higher prices of fed cattle. This was a good year for fruit production. Gains occurred in apples, peaches, pears, grapes, cherries, and

plums, but generally the larger crops were accompanied by lower prices. The Michigan dry edible bean crop was somewhat above average in size, but far below 1963. Sugarbeet production in Michigan and Minnesota is expected to approximate the record total of last year.

The drought area in Minnesota embraced much of the highly productive southern half of the State. In Wisconsin it was limited largely to the northwest half. Michigan was affected to a much lesser extent. A number of counties of the region were designated for emergency Farmers Home Administration loans. As of October 15, eligible farmers in 41 counties of the Lake States (or 17 percent) were permitted to purchase Commodity Credit Corporation stocks under the Livestock Feed Program and in 68 counties (or 28 percent) to pasture or harvest hay from otherwise restricted acreages under the Grazing and Haying Program.

Farmers who had a good year are disposed to enlarge and improve their farms and to buy more efficient equipment, using credit to the extent necessary. Some farmers who experienced heavy financial losses on livestock feeding operations or who had poor growing seasons are postponing their farm improvements and purchases of equipment. Many of them will need to buy more feed than usual. Their savings will be less than last year and they will need more credit.

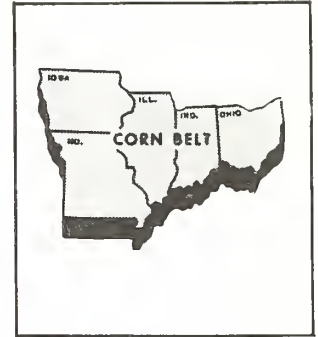
The increasing demand for credit was accompanied by a greater availability of loan funds. Lenders may be expected to provide loan capital at firm to slightly higher interest rates in 1965. Many loans are for longer terms and for a larger proportion of the value of the security mortgaged. Nevertheless, many private lenders may look more carefully at the managerial ability and the repayment record of the prospective borrower. Delinquencies in repayments are not much different this year, but there seems to be a somewhat greater tendency to renew and refinance. Real estate values are still advancing, but at a slower rate than in any other region--only 1.2 percent from 1963 to 1964, compared with a range in other regions from 4.2 to 9.5 percent. The rise in farmland value and other equity a farmer has in his farm in recent years is increasingly used as the basis for additional loans, and for longer term loans to reduce the size of repayments out of current income. Farm-mortgage recordings in the first 6 months of 1964 were 15.5 percent greater than in the first 6 months of 1963. This increase was less than that which occurred from 1962 to 1963, but otherwise it was the largest increase in the last 5 years.

C O R N B E L T

Regional Highlights

	1963 (Million dollars)	1964	Change (Percent)
Cash receipts from farm marketings, Jan.-Aug.			
Total-----	5,044	4,922	-2.4
Crops [*] -----	1,715	1,665	-2.9
Livestock and products-----	3,329	3,257	-2.2
Market value of farm real estate, July 1-----	32,845	34,663	5.5
Farm real estate debt, Jan. 1-----	3,227	3,490	8.1
Farm-mortgage recordings, Jan.-June-----	455	551	21.1
Non-real-estate loans held by reporting lenders, July 1-----	2,107	2,232	5.9

See footnote () page 18.



Incomes on Corn Belt farms this year are not expected to equal the high levels of 1963. But for many farmers they will not be much lower, and prospects for cattle feeders and hog producers appear more favorable now than they did in the autumn of 1963.

During the early months of 1964, most cattle feeders made little profit or suffered losses on their operations, a continuation of the unfavorable situation that started early in 1963. Since May, however, prices of fat cattle have improved sharply, while prices of feeder cattle have changed little. During recent months, cattle feeders had a positive feeding margin in the relationship between prices of feeders and fat cattle. Similarly the outlook for hog producers is favorable--smaller farrowings this year are expected to reduce hog marketings this winter and at least into the first part of the next year.

Corn production in the Corn Belt this year, as of October 1, is forecast at about 12 percent below the record of 1963, but 2 percent above the 1958-62 average. Yields were down 9 percent from 1963, and acreage was down 3 percent. The record 1963 outturn contributed importantly to cash farm income in early 1964; this year's crop probably will not provide as strong a boost to 1965 incomes. Price supports for 1964 feed grains are at the same levels as in 1963. Loan levels are a little higher but price support payments a little lower. Production of soybeans in the Corn Belt, despite higher acreage, is forecast to be down about 8 percent from 1963's record. Dry weather over wide areas during the late summer and early fall caused the reduction in crop yields.

The drought brought a sharp decline in pasture and hay conditions. USDA, through the drought assistance program, has offered grazing and haying privileges on lands retired or diverted from crop production. This program was authorized to farmers in about half the counties of the region.

Farmland prices in the Corn Belt States rose about 6 percent from mid-1963 to mid-1964, a greater rise than in the previous 12-month period despite the pessimism over the cattle price situation in early 1964.

Non-real-estate debt rose only 6 percent in the Corn Belt States in the 12 months ended June 1964; in the previous year this debt had increased 17 percent. One reason for the smaller rise was the decline in the number of cattle on feed. The number on feed on July 1, 1964, was 6 percent less than a year earlier in the Corn Belt States; in the previous year numbers on feed had increased 10 percent. Feeder cattle prices are lower this year than last year. In contrast to the small increase in short-term debt, the volume of farm mortgages recorded for the first half of 1964 was up 21 percent from the first half of 1963; the year-to-year increase in the previous year was 17 percent.

Lenders in the cattle feeding areas were reported as being more cautious this year, at times insisting their borrowers not pay above certain prices for feeders, or not buy more cattle than their own feed supply would permit them to finish. At the same time, credit demands of farm operators for feeder loans this summer were reported as considerably below normal. Lending experience has continued relatively good. There have been more renewals than usual but only a slight increase in delinquencies; no change occurred in foreclosures from the low level that has prevailed for some time. Most reporters indicated that the commercial lenders were continuing to finance their established customers. In only a few areas was there reported to be increased Farmers Home Administration activity. Short-term interest rates were reported firm to slightly higher.

An abundance of credit was reported as available through sales agencies to buy machinery, new feeding systems, and similar types of equipment but the demand for such equipment was reported less strong than it had been earlier.

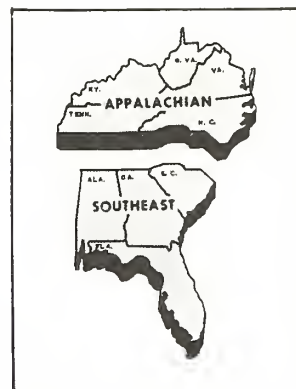
Somewhat more borrowers than usual were reported as borrowing on mortgage security for their operating credit needs, or to refinance their short-term debts. Data on farm-mortgage-loan commitments of life insurance companies in the first half of 1964 indicated some rise in the proportion of their loans to refinance short-term indebtedness. This increased refinancing in many instances probably reflected low returns from cattle feeding operations. Short- and intermediate-term debts that farmers could easily have paid with higher returns from cattle became burdensome and were converted into longer term debts with lower repayment rates. The rising prices of farmland, and resulting increased equities of owners, made this type of financing possible.

APPALACHIAN AND SOUTHEAST

Regional Highlights

	1963 (Million dollars)	1964 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, Jan.-Aug.			
Total-----	2,805	3,045	8.6
Crops*-----	1,238	1,483	19.8
Livestock and products-----	1,567	1,562	-.3
Market value of farm real estate, July 1-----	20,163	21,410	6.2
Farm real estate debt, Jan. 1-----	2,057	2,305	12.1
Farm-mortgage recordings, Jan.-June-----	401	430	7.2
Non-real-estate loans held by reporting lenders, July 1-----	1,168	1,279	9.5

See footnotes () page 18.



The financial position of farmers in the Appalachian and Southeastern Regions improved further this year.

Receipts from crop sales are up substantially although adverse weather restricted production in some areas. The Florida citrus industry is rapidly recovering from the December 1962 freeze. Production of oranges is expected to be 43 percent greater than last year, but 8 percent below the 1958-62 average. Grapefruit production will be over one-fourth larger than during the previous season, and 2 percent above average. Citrus prices should remain high this season.

Production and incomes from flue-cured and fire-cured tobacco will be down slightly due to smaller acreage allotments although per acre yields are up. Lower Burley tobacco yields and smaller acreage allotments will result in a 20-percent decrease in output and substantially lower incomes.

Generally, incomes from the slightly larger cotton crop are expected to be somewhat lower since total price support payments, including supplemental payment to growers who plant within their domestic allotments, will be lower. Production of peanuts should set a record if harvest weather is satisfactory. Florida sugarcane acreage was expanded this year; yields are excellent, but prices are down. Soybean production and prices increased.

Drought resulted in short pastures and a poor hay crop in Virginia, West Virginia, Kentucky, and some areas of Tennessee, Alabama, and the Carolinas. The lack of moisture resulted in undersized apples in the commercial apple areas of Virginia and West Virginia. The pecan crop is exceptionally short. Peach and early-vegetable crops in North Carolina and South Carolina were essentially destroyed by a late freeze.

Dairy farmers found it difficult to maintain incomes due to short pasture and hay crops along with general cost increases. Beef producers felt the effects of both low prices and dry weather and will have reduced incomes. Broiler and egg producers increased production. Prices are down and incomes will be somewhat lower.

Government payments have increased and continue as an important source of revenue although soil bank payments declined as the program was being phased out.

Production expenses increased as farmers used more nonfarm inputs and purchased more machines and equipment. Only the more prosperous farmers appear to have increased their savings and reserves. Available credit and the demand for land for farm enlargement and nonfarm uses caused farm real estate prices to climb to record levels. The total value of farm real estate was up sharply again this year. There was an increase in value of about 7.5 percent in the Southeastern Region and 5.1 percent in the Appalachian Region. Expenditures for farm building and equipment maintenance have risen a little from last year.

Financial difficulties encountered by small farmers and worsening prospects for uneconomic units, together with the availability of jobs in the nonfarm sector of the economy, increased part-time farming and migration from farms. More income from nonfarm jobs contributed to an increase in the level of living of many farm people. Social security payments have become increasingly important to older persons in these areas.

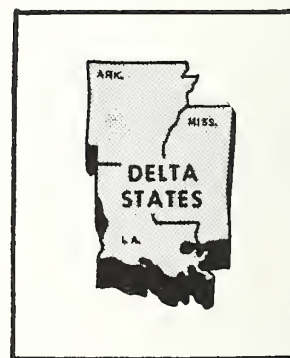
Demand for additional credit along with an ample supply of money has resulted in an increase in loan size and in total debt. There were some increases in debt carryover, lending practices were more liberal, and there was an increase in refinancing to obtain longer term loans. Interest rates appear to be stable. Lenders generally had favorable lending experience with relatively few delinquencies or foreclosures.

DELTA STATES

Regional Highlights

	1963 (Million dollars)	1964 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, Jan.-Aug.			
Total-----	742	778	4.9
Crops*-----	253	281	11.1
Livestock and products-----	489	497	1.6
Market value of farm real estate, July 1-----	6,424	7,037	9.5
Farm real estate debt, Jan. 1-----	739	837	13.3
Farm-mortgage recordings, Jan.-June-----	185	187	1.1
Non-real-estate loans held by reporting lenders, July 1-----	511	553	8.2

See footnote () page 18.



As a group, farmers in the Delta Region continued to improve their financial position this year. Northern and western Arkansas and northwestern Louisiana, which were plagued by drought, did not fare so well.

Receipts from crops are improved in Louisiana and Mississippi but are lower in Arkansas. Despite favorable cotton crop prospects, incomes from the crop will be under 1963 incomes due to lower support prices. Increased income

from soybeans will result from higher yields and larger acreages along with favorable prices. Rice production will be up slightly from last year's excellent crop and will set a new record. Production of sugarcane will be down somewhat from the record crop last year because of damage from hurricane Hilda. Sugarcane prices are lower this year. Pecan production will be only one-third as large as last year's record crop and three-fourths of the 1958-62 average.

Livestock sales were stable to up slightly in Louisiana and Mississippi. Increased livestock sales in Arkansas probably, in part, reflect the shortage of feed and pasture. Lower cattle prices held down receipts in the region. Broiler production increased but prices fell and incomes from this source are lower.

Government payments may be close to last year although soil bank payments will be lower.

Continued nonfarm job opportunities caused incomes from nonfarm sources to become more important to farmers and allowed migration from farms to continue. Social security payments have become a more important source of income. The level of living experienced by farm people in the region is improving. Savings and reserves held by Delta farmers are lower in drought areas but appear to be better elsewhere. Building and equipment maintenance is reported to be satisfactory.

Expenses for farm inputs were up. This along with the steady or declining incomes of some farmers resulted in financial difficulties for a number of less efficient operators.

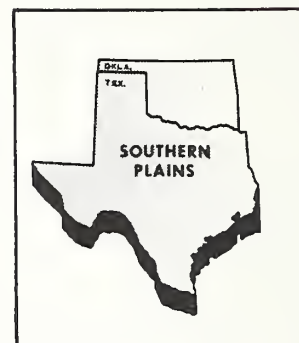
The credit picture is one of increased demand and ample supply. Lenders provided increased amounts of real estate and non-real-estate credit on more liberal terms. The availability of credit, along with a demand for land, probably contributed to higher prices as farm real estate values surged upward again this year. Real estate values in this region increased 9.5 percent--the largest increase for any region in the Nation. Interest rates have been steady. Reports indicate that lending experience has been excellent, although there were more delinquencies than usual in Arkansas. Little increase in foreclosures has been reported. There will be a need for credit to buy feed in drought-stricken areas.

SOUTHERN PLAINS

Regional Highlights

	1963 (Million dollars)	1964 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, Jan.-Aug.			
Total-----	1,852	1,741	-6.0
Crops-----*	850	793	-6.7
Livestock and products-----	1,002	948	-5.4
Market value of farm real estate, July 1-----	19,123	20,363	6.5
Farm real estate debt, Jan. 1-----	1,400	1,596	14.0
Farm-mortgage recordings, Jan.-June-----	255	326	27.8
Non-real-estate loans held by reporting lenders, July 1-----	1,052	1,177	11.9

See footnote () page 18.



Conditions this year in the Southern Plains varied greatly from one area to another, but many farmers, particularly those in the western part of the region, had a relatively unfavorable year. Wheat production is expected to be above last year, but slightly below average. Rice production is expected to be high. On the other hand, cotton production is expected to be about 6 percent below the 1958-62 average, and cattle producers have been hit by low prices and poor range conditions.

Farming and ranching continue to become more mechanized, and to use more fertilizer and other purchased inputs. Farmers continue to consolidate into larger, more economic units. These factors can be expected to produce a continued high level of demand for both short- and long-term credit. Some lenders expect, however, that the demand for credit for new machinery purchases may be softened somewhat by the lower incomes of farmers this year. On the other hand, lenders appear to expect that the relatively unfavorable year will increase farmers' overall need for credit next year. Supplies of credit seem to be adequate, although there is some evidence that marginal borrowers will be scrutinized more closely. Interest rates are expected to remain at about the same level.

Farmers' and ranchers' overall financial positions appear likely, on the whole, to change little. Few delinquencies are reported throughout the region, and foreclosures are very infrequent.

As always, credit conditions vary from one sector of agricultural industry to another and from one region to another. The cattle industry has been experiencing a period of low prices. Some lenders, however, indicated that they felt that cattle feeders were "over the hump." Nevertheless, some livestock producers may find their credit lines somewhat restricted. One lender noted, in particular, that "bankers and other lenders are finding that the cattle industry is not the place for the amateur to start in farming, despite possible success in other economic endeavors."

In addition to lower prices, ranchers in some areas--particularly northwestern Texas and western Oklahoma--have been hit by drought. Several

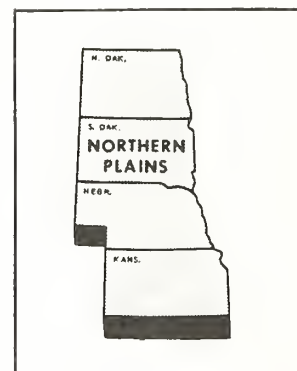
lenders reported that ranchers were marketing lightweight calves and were being forced to cull their herds more severely. Some involuntary herd liquidations were reported.

N O R T H E R N P L A I N S

Regional Highlights

	1963 (Million dollars)	1964 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, Jan.-Aug.			
Total-----	2,543	2,267	-10.9
Crops*-----	1,036	826	-20.3
Livestock and products-----	1,507	1,441	-4.4
Market value of farm real estate, July 1-----	15,471	16,449	6.3
Farm real estate debt, Jan. 1-----	1,300	1,436	10.5
Farm-mortgage recordings, Jan.-June-----	155	206	32.9
Non-real-estate loans held by reporting lenders, July 1-----	1,361	1,485	9.1

See footnote () page 18.



Wheat production in the Northern Plains is estimated to be about 18 per cent greater than last year, and roughly equal to its average over the last 6 years. Western Kansas, however, had a poor year. Although wheat prices are lower, much of the difference will be made up by higher Government payments. The corn crop in the region is expected to be only about 70 percent of last year's crop, and well below average. Lack of moisture has been especially severe in eastern South Dakota, where much of the corn crop will be used for silage this year. The crop will also be short in eastern Nebraska.

Pasture conditions were above average in North Dakota and western South Dakota, but below average in southeastern South Dakota and parts of Nebraska and Kansas. The situation in Nebraska and Kansas is made more serious by the fact that many of these areas experienced drought last year, too. Both cattle raisers and cattle feeders have had a bad year, due to low prices particularly in the first half of the year. Several lenders reported, however, that they felt that profit conditions for cattle feeders were beginning to improve, and that the outlook for cattle feeders was materially better than last year. Choice steers at Chicago in October averaged about \$4 to \$5 per hundredweight above the year's low in May. Prices of feeder cattle, however, did not change much. Cattle feeders, therefore, currently have a favorable feeding margin while the outlook for producers of feeder cattle appears somewhat less favorable. Although cattle producers (both ranchers and feeders) have been hurt by the recent price squeeze, most lenders seemed to feel that relatively few adequate size units were in serious financial distress.

The financial status of farmers varies greatly from one section of the Northern Plains to another. Farmers in northern North Dakota and western

South Dakota have had a third reasonably good year; for farmers in western Kansas this was the second bad year. Lower cattle prices have hurt all producers. Lenders report few delinquencies and very few foreclosures. Overall, farmers' financial positions do not appear to have changed substantially.

Farm operating expenses continue to increase slightly throughout the region, due primarily to increased use of purchased inputs. Prices of farm supplies appear to have remained relatively stable, on the average. Farmers appear to be maintaining their levels of living.

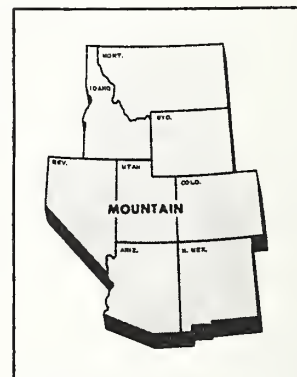
Demand for credit is expected to remain high, and perhaps to increase. The trend toward farm and ranch consolidations apparently is continuing, and farmers and ranchers will continue to need money for increased mechanization, for replacement of worn-out machinery, and for more fertilizer, insecticides, etc. However, in areas that have had poor crops this year, new machinery purchases may be cut as a result of the poorer incomes. On the other hand, a number of lenders seem to feel that poor conditions in those areas will cut into farmers' financial resources sufficiently so that they will need to borrow more heavily next year. The supply of funds appears to be sufficient in most areas to finance farmers on adequate-sized, well-managed units. Interest rates are expected to remain relatively stable.

M O U N T A I N

Regional Highlights

	1963 (Million dollars)	1964 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, Jan.-Aug.			
Total-----	1,421	1,368	-3.7
Crops*	566	525	-7.2
Livestock and products-----	855	843	-1.4
Market value of farm real estate, July 1-----	12,921	13,459	4.2
Farm real estate debt, Jan. 1-----	1,416	1,591	12.4
Farm-mortgage recordings, Jan.-June-----	193	243	25.9
Non-real-estate loans held by reporting lenders, July 1-----	1,084	1,213	11.9

See footnote () page 18.



Lower prices for cattle combined with adverse weather conditions to make the financial position of farmers and ranchers in the Mountain States moderately weaker in 1964 than in 1963. Higher prices for sheep, lambs, and wool were offset by a small winter wheat crop and a decline in production of Colorado and Idaho potatoes. Land prices continued to rise, however, strengthening the equity of owner-operators.

Drought in eastern New Mexico and eastern Colorado affected pasture conditions and crop production, with severe conditions in northeastern New Mexico. Floods along the Missouri River in June; a wet, cold spring in Idaho followed by rain damage to prunes, plums, and ripe unharvested grain;

torrential rains in southern Arizona in September; and early frost in Colorado and Idaho all contributed to holding down crop production.

Farm production expenses continued to increase. When combined with the decrease in income, this intensified the cost-price squeeze on farmers. Small, less efficient operators continued to leave agriculture for off-farm jobs.

The need for credit was greater in 1964 than in 1963, in part reflecting drought conditions and lower cattle prices. Loan repayments are reported down from a year ago, but there has been no increase in delinquencies and foreclosures. Most commercial lenders report they are still able to handle the credit needs of their customers, although credit has been somewhat more difficult to obtain in areas affected by drought or where beef-cattle is the predominant enterprise. Farm-mortgage recordings in January-June 1964 were substantially higher than in the same period of last year, partially because of increased use of real estate as security for loans.

Farm and ranch families are reported to be maintaining a reasonable level of family living. Financial reserves and savings have declined, however, and living levels of families who have been hit by unfavorable weather 2 or 3 years in a row have been reduced somewhat.

Credit demand is expected to increase in 1965. Consolidation of units is continuing, and real estate is also being increasingly used as security for operating loans. Lenders expect funds to be adequate for next year, although some tightening may occur in localized areas.

P A C I F I C

Regional Highlights

	1963 (Million dollars)	1964	Change (Percent)
Cash receipts from farm marketings, Jan.-Aug.			
Total-----	2,559	2,625	2.6
Crops*-----	1,422	1,439	4.7
Livestock and products-----	1,137	1,136	-.1
Market value of farm real estate, July 1-----	21,411	22,455	4.9
Farm real estate debt, Jan. 1-----	2,392	2,686	12.3
Farm-mortgage recordings, Jan.-June-----	307	296	-3.6
Non-real-estate loans held by reporting lenders, July 1-----	1,076	1,192	10.8

See footnote () page 18.



Total production of crops, livestock, and livestock products in California, Oregon, and Washington probably will total somewhat higher in 1964 than in 1963. However, the great variety of commodities produced under a wide range of climatic conditions insures that output will vary from place to place. For example, production of apples and potatoes is reported to be down significantly in Washington. On the other hand, the California fruit and nut crops were at near-record levels. Prices for some commodities were below a year ago--especially fed beef cattle--but aggregate gross income from

farm marketings during the first 8 months of 1964 was 2.6 percent higher than during the like period of 1963. Despite a greater flow of cash this year to farmers and ranchers, a rise in costs of production could pare net returns below a year ago.

Spending for farm machinery and equipment probably will be at a level above that in 1963. Costs of family living edged up during this year.

Current market prices of farm real estate moved higher throughout the region. Average values were at record highs in all States. Demand for land continued strong. In predominantly rural areas, much of the demand came from established farmers seeking to enlarge their farms. Near metropolitan areas, particularly in Southern California, additional demand for land stems from the rapid expansion of suburban areas to accommodate the growth in population.

The use of credit expanded again in 1964. Lenders generally responded favorably to the demand. In addition, many commercial lenders were somewhat more aggressive in seeking agricultural loans. Part of the gain in outstanding loans reflects the use of increased quantities of purchased inputs, a carryover of loans from the previous year and renewals of loans during the year. Loan renewals were most apparent in areas of heavy livestock feeding. In some localities, forced liquidations were reported up slightly. In some instances, additional collateral was sought by lenders. On balance, however, loan repayments were good. Few delinquencies either of principal or interest were indicated. This healthy debt repayment situation is partly due to the continuing strong demand for land. Farm owners who become overburdened with debt usually can sell their property, pay their debts, and retain some of their equity.

Next year may be a near carbon copy of 1964. The use of credit, at all term lengths, should increase. Demand for farmland is strong now and probably will remain so for some time to come. As a result, land prices are likely to move higher through 1965. This probably means further expansion of real estate debt. Efficient, well-managed farms require the use of more and more purchased inputs including machinery, chemicals, petroleum products, and so on. Accordingly, demand for intermediate- and short-term credit will strengthen further.

Interest rates softened slightly toward the end of 1964 on long-term real estate loans but stiffened on short-term loans. There probably will be little change in interest rate levels during most of 1965. If anything, they may average slightly higher.

ALASKA AND PUERTO RICO 1/

Alaska. The financial condition of farmers in most areas of Alaska is reported to be moderately weaker than a year earlier. Credit delinquencies and foreclosures are up somewhat. This is a continuation of the trend noted

1/ Reports were not received this year describing the situation in Hawaii.

last year. Costs of production remain high and incomes have declined. Lower prices for milk have been particularly significant. Increased imports from Stateside and loss of some sales to the military market have been factors.

The outlook for improvement in net incomes is not good and many farmers are seeking supplemental income. Some have discontinued farming. Although farmers' needs for credit have remained about the same as last year there are indications that more of it must be obtained from the Farmers Home Administration. Increased demand for credit by the economy as a whole following the earthquake has reportedly taxed bank resources.

Puerto Rico. A decline in the world price of sugar and prolonged drought have been the main factors causing lower income to Puerto Rican farmers. Coffee and tobacco production was reduced. Because of the drought, emergency loans have been made available from the Farmers Home Administration. The supply of credit from Government and private sources is reported to be adequate for the needs of most farmers.

The sugarcane industry continues to undergo an economic adjustment. Because of higher wages for hired labor and the lower price of sugar the profits from farm operations, especially those not mechanized, have been squeezed. Some small sugarcane producers have moved out of agriculture or have turned to more profitable enterprises such as livestock. The Puerto Rican economy, as a whole, has shown further improvement and many rural families are receiving nonfarm income.

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